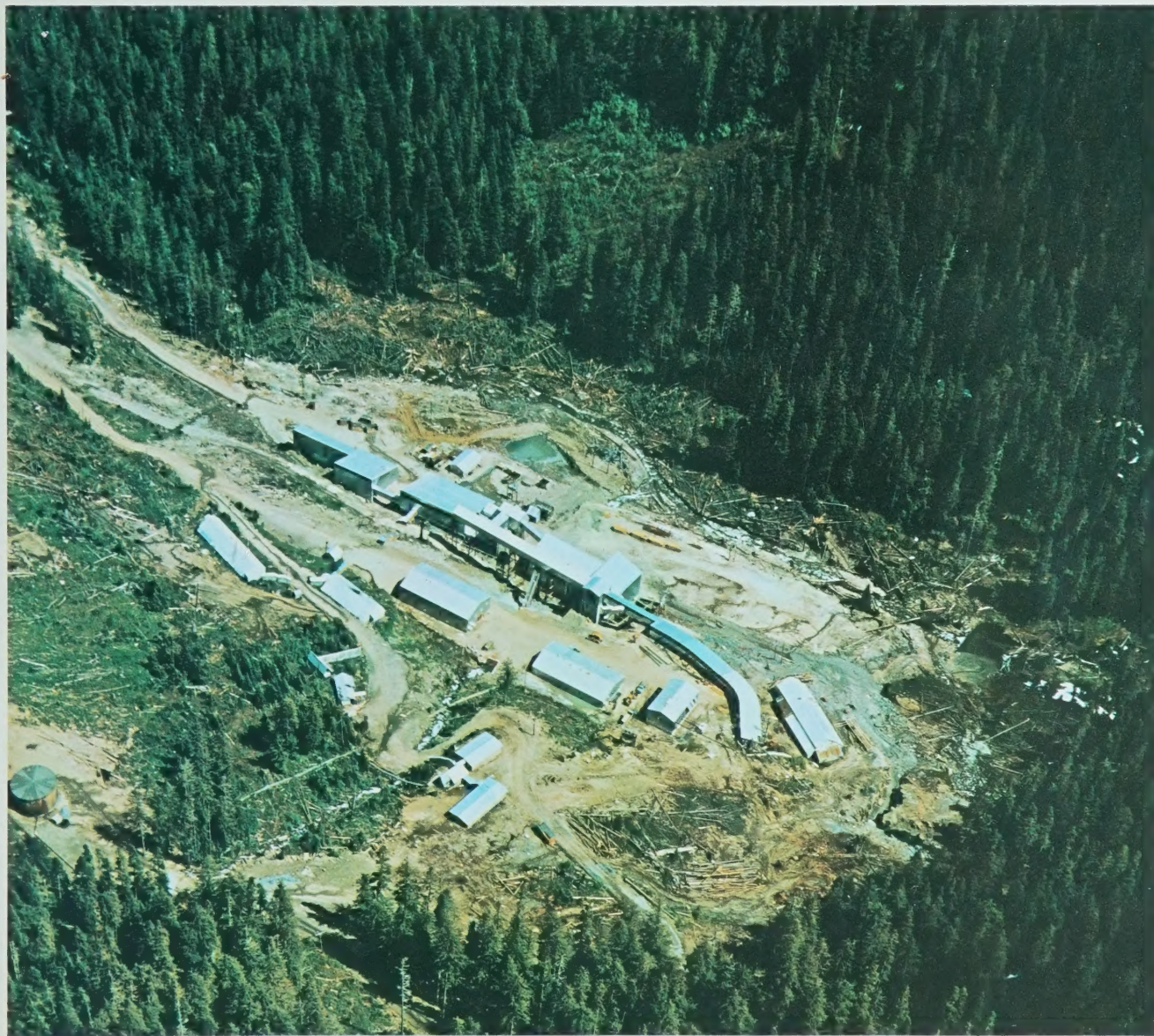
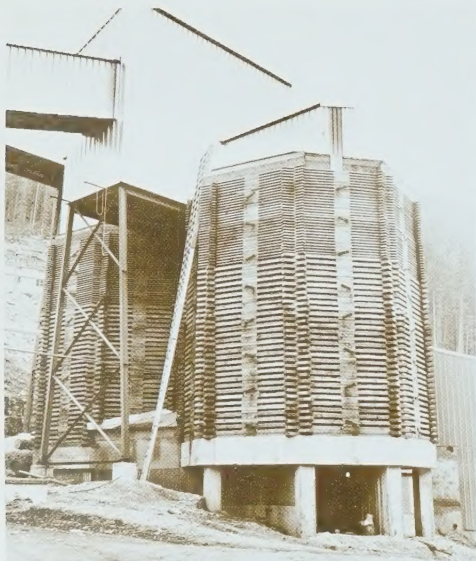




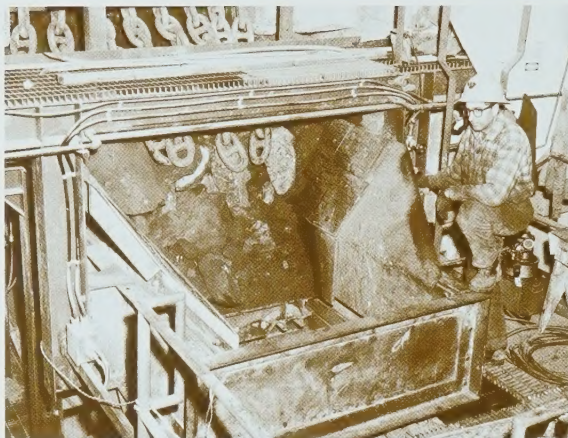
GIANT
MASCOT
MINES
LIMITED

twenty-first
annual report
1971

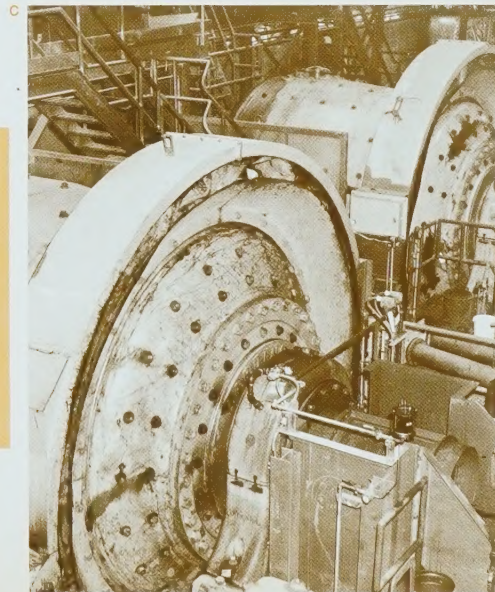




a



b



c



d

Cover photograph shows the surface facilities nestled against the mountainside at the Giant Nickel Mine near Hope. Shown above are sections of the mine's new processing plant: a) fine ore bins; b) reciprocating feeder to the primary jaw crusher; c) grinding circuit; d) conveyor systems in crusher building.

Back cover: Panarctic's Foshem well on Ellesmere Island.

Photographs by: George Allen Aerial Photos Ltd.
Panarctic Oils Ltd.



GIANT MASCOT MINES LIMITED

(Incorporated under the Laws of the Province of British Columbia)

TWENTY-FIRST ANNUAL REPORT

DIRECTORS

A. H. Ainsworth, *Vancouver*
K. G. Bream, *Toronto*
R. B. Carleton, *Montreal*
N. Gesser, *Montreal*
J. L. Gibson, *Vancouver*

W. C. Gibson, *Vancouver*
H. A. McDiarmid, *Vancouver*
L. P. Starck, *Vancouver*
J. T. Wanamaker, *Montreal*

OFFICERS

W. C. Gibson, *Chairman of the Board*
L. P. Starck, *President and Managing Director*
J. T. Wanamaker, *Vice-President, Finance*
A. H. Ainsworth, *Secretary and General Counsel*

REGISTERED OFFICE

Suite 2260, Toronto-Dominion Bank Tower,
Pacific Centre, 700 West Georgia Street,
Vancouver 1

ADMINISTRATIVE OFFICE

P.O. Box 10010, Pacific Centre, Vancouver 1

REGISTRAR AND TRANSFER AGENTS

Canada Permanent Trust Company, Calgary, Montreal,
Toronto, Vancouver

SOLICITORS

Ainsworth & Company, Vancouver

AUDITORS

Price Waterhouse & Co., Vancouver

Listed on the Toronto and Vancouver Stock Exchanges



REPORT OF THE PRESIDENT AND DIRECTORS TO THE SHAREHOLDERS



A 47 per cent increase in the drill-proven and probable ore reserves at the Giant Nickel Mine, the resumption of production at that mine on May 14th, 1971, and a further major natural gas discovery by Panarctic Oils Ltd., in which the Company holds a 4.52% interest, highlighted Giant Mascot's 1971 fiscal year.

The Honourable Frank Richter, Minister of Mines and Petroleum Resources of the Province of British Columbia, officially opened the concentrator and surface establishment on August 2nd, 1971, the anniversary of the fire. The replacement facilities were designed and built for production at a rate comparable with the capacity of those which were destroyed by the fire, except that when the plans for reconstruction were initiated, the decision was made to provide for greater capacity in the crushing system, on the basis, of course, that the additional cost involved would not form part of the Company's insurance claim. With the increased ore reserves, consideration can be given to expanding, in due course, the concentrator and filter systems to match the crushing system.

In barely ten months after the fire, including the tune-up period, the plant was returned to full production as a result of the superb effort on the part of the consultants, the contractors and our own operating staff.

Final detailed information relating to the Company's losses as a result of the fire was provided to the insurers, and, subsequent to the fiscal year end, interim insurance payments totalling \$1,666,666 were received from the insurers with whom Giant Mascot had placed its principal insurance coverage in a combined amount of \$5,000,000 in property damage on a replacement cost basis, business interruption

loss and other cover. The Company's claims for the loss of concentrates and various valuable papers were settled earlier.

In the 4½ month period prior to September 30, 1971, an operating profit of \$937,972 was attained. Net earnings for the year amounted to \$4,408,470 after giving effect to extraordinary items of \$3,889,682. The earnings exclusive of extraordinary items were \$518,788 after giving effect to the increase in the provision for depreciation based on the increased value of the reconstructed plant and in the related provision for deferred income and mining taxes.

During the first quarter ended December 31, 1971, of the present fiscal period, the Company's unaudited net earnings amounted to \$281,443 after making provisions for depreciation and deferred income and mining taxes in the increased amounts now applicable for the reasons already noted.

The drill-proven and probable ore reserves at the Giant Nickel Mine have increased as of September 30th, 1971, to 2,040,034 tons from the 1,382,002 tons reported in December, 1970. After allowing for the replacement of the 157,175 tons of ore mined and treated during the year, the total new ore discovered during the period amounted to 815,207 tons, which is more than equal to the known ore reserves on the property when Giant Mascot first acquired an interest in it in 1959. ✓

In view of the present slowdown in metal markets in Japan, the Company has arranged for additional smelter accommodation with Sherritt Gordon Mines Limited in Canada, which, with the long-standing contract with the Sumitomo Group, will provide a market for the full production scheduled for 1972. Although there is

presently some oversupply of nickel on the world markets, the demand is expected to increase as the world economy improves, with resultant increased consumption of nickel in metal processing, petrochemical and other industries, and as the need for antipollution devices gains emphasis.

During the year the option to acquire a controlling interest in the Nickel Plate Mine, a former gold producer near Hedley, British Columbia, was exercised and since September 30, 1971, a new private company, Mascot Nickel Plate Mines Limited, has been formed, to which the Nickel Plate properties have been transferred. The Company holds 75% of the issued shares of the new company and the former owner, Burden Investors Services, Inc., of New York, holds 25% and is entitled to a royalty on any production up to an aggregate of \$250,000.

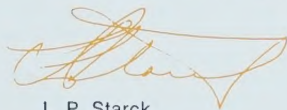
The search for hydrocarbons in the Arctic Islands, in which Giant Mascot is a participant through its holdings in Panarctic Oils Ltd., is fast moving into an exciting stage as is evident from the three separate major gas discoveries made to date by Panarctic, particularly in light of the fact that 250 structures have been identified by Panarctic that justify drilling. The agreement entered into in 1971 between Panarctic and a consortium of four major gas corporations, headed by Tenneco Oil and Minerals Limited, suggests that gas from the Arctic may be saleable at an earlier date than had previously been considered possible. The Tenneco consortium has committed to expend \$75 million for exploration and stepout drilling for the right to receive a priority to negotiate the purchase of natural gas developed by the program in excess of Canadian requirements as determined by the National Energy Board.

Panarctic is a consortium of major mining and oil companies which, with the Canadian Government as a 45% partner, is engaged in the exploration of extensive oil and gas acreage held in Canada's Arctic Islands. Of the companies from the private sector, Giant Mascot, which now participates directly rather than through its wholly-owned subsidiary, Eagle Ridge Petroleum Ltd., is one of five holding a 4.52% interest. The only companies with greater participations in the venture are two, each holding 9%.

In order that Giant Mascot may be in a position to expand, or, by itself or with others, to acquire other ventures presently in operation or with a potential for operation as they become available, the Directors recommend for approval by the shareholders the proposal that the number of shares which the Company is authorized to issue be increased to 15,000,000.

The greatly enhanced prospects for Giant Mascot's investment in Panarctic Oils Ltd., based on the Arctic gas fields already discovered and the multitude of first class targets to be explored, and the increase in the ore reserves at the Giant Nickel Mine, all indicate that 1972 will be another year of significant progress in the development of Giant Mascot.

ON BEHALF OF THE BOARD



L. P. Starck
President

Vancouver, B.C.
January 17, 1972



OPERATING REPORT

January 10, 1972

The Board of Directors,
Giant Mascot Mines Limited,
1131 Melville Street,
Vancouver 5, B.C.

Gentlemen:

This report covers the operating and exploration activities at the Giant Nickel Mine and outside exploration programs for the fiscal period ended September 30, 1971.

The operating results for 1971 referred to in this report are for the 4½ month period following the resumption of production on May 14, 1971, after the reconstruction of the concentrator and related surface facilities destroyed by fire on August 2, 1970. The 1970 figures are for the 10 month period preceding the fire.

VALUE OF MINERAL PRODUCTION AND NET EARNINGS:

VALUE OF MINERAL PRODUCTION

	Per Year	Per Ton
1971	\$2,153,223	\$13.70
1970	5,173,552	17.15
1969	3,469,505	10.95

The "per ton" value of mineral production in 1971 was below the previous year. This resulted from a combination of lower copper prices, grade of headings, the absence of the special benefit derived in 1970 from selling a portion of the production as tolled electrolytic nickel when the merchant market was at a premium, and the loss, resulting from the freeing of the Canadian dollar, of the exchange differential on U.S. funds in which the Company receives payment for its product.

NET EARNINGS

	Per Year	Per Ton
1971	\$ 518,788	\$3.03
1970	1,596,990	5.29
1969	579,740	1.83

PRODUCTION:

	1971	1970	1969
Ore treated (tons)	157,175	301,693	316,749
Nickel-copper concentrates produced (tons)	9,217	20,595	17,527
Nickel recovered (pounds)	1,861,492	4,037,291	3,496,000
Copper recovered (pounds)	1,155,859	2,277,994	1,930,339
Grade of ore treated:			
Percent Nickel	0.74	0.83	0.72
Percent Copper	0.40	0.42	0.34

OPERATING COSTS (PER TON):

	1971	1970	1969
Mine exploration and development	\$1.39	\$2.03	\$2.12
Mining	2.72	2.66	2.83
Concentrating	1.19	1.50	1.49
Mine administration	0.42	0.38	0.30
	5.72	6.57	6.74
Depreciation and amortization of deferred costs	2.01	1.13	0.86
	\$7.73	\$7.70	\$7.60

The apparent reduction in the 1971 costs, before depreciation and amortization of deferred costs, resulted in part from the fact that the cost of preparatory underground work during the period when production was suspended had to be deferred, and also from the fact that during the 4½ month production period the emphasis was on main entries, the cost of which is amortized, rather than on exploration and mine development which is a current expense.

ORE RESERVES AND MINE EXPLORATION

The drill-proven and probable ore reserves of 2,040,034 tons include 1,688,034 tons of proven

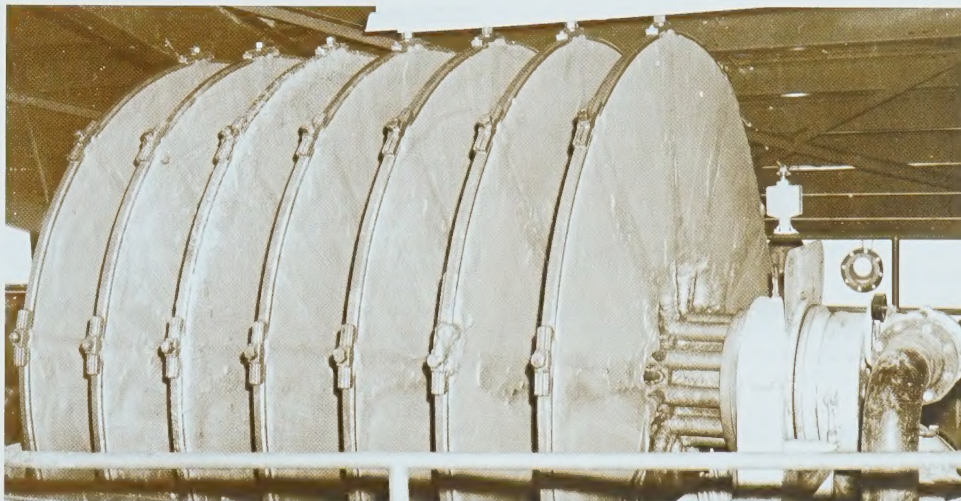
ore grading 0.80% nickel and 0.40% copper. This is an increase of 658,032 tons over those recorded in the 1970 annual report.

The continuing program of exploration diamond drilling and development has resulted in a steady increase in ore reserves each year for the past five years. This trend is expected to continue with the evolving knowledge and understanding of the geology, mode of occurrence and structural control of the ore deposit.

The expansion of the Chinaman zone, where 456,000 tons of drill-proven ore have been blocked out, accounted for the major increase in the ore reserves. This zone, which extends from the surface to the 2850 horizon, has been further extended by diamond drilling downwards to the 2600 main haulage level. Additions to the reserves have also been made in the Climax, 4600, 2200 and 1600 areas. Exploration is continuing in several of these areas to expand the existing reserves. As equipment and personnel become available, work will be extended into other areas where interesting mineralization in favourable geologic environment has previously been encountered.

Longhole diamond drilling from the 2600 main haulage level disclosed several new areas of mineralization in the ultra-basics, both above and below the level, which warrant detailed exploration. The downward extension of some of the known ore bodies below the 2600 level has been indicated by a limited downhole diamond drilling program.

The surface program, which was planned for 1971 to test the five known anomalous areas, was



Concentrate filter at Giant Nickel mine.

restricted by climatic conditions, but will be continued next year. During the limited program, however, encouraging results were obtained by surface stripping and diamond drilling of the Trail No. 2 geochemical and geophysical anomaly.

MINING

	1971	1970	1969
Raising (feet)	1,309	3,908	4,962
Drifting (feet)	5,028	3,596	3,451
Percussion longhole drilling (feet)	117,470	215,282	191,990
Diamond drilling (feet)	59,789	70,120	55,077

The major portion of the 1.4 miles of development work and 11.3 miles of diamond drilling was done to explore and develop the Climax, Chinaman, 4600 and 1600 areas on and above the 2600 and 3050 levels.

Production in 1971 was mainly from the 1500, 2200, 4300 and 4600 zones. The 1600 zone on the 3250 level, the 4600 zone on the 2950 level, the 4300 zone on the 3250 level, and the Climax and Chinaman zones on both the 2600 and 3050 levels are in various stages of development.

CONCENTRATOR

Production resumed on May 14, 1971, and following a limited tune-up period, the present treatment rate was attained, primarily as the result of the provision by the Company for an improved crushing system and the utilization of the third fine ore bin, the counterpart of which had been installed prior to fire but never used.

Metallurgical recoveries were calculated at 79.3% for nickel and 91.3% for copper, which are slightly lower than in the previous year.

The extensive construction program initiated in 1971 to expand and improve the tailings disposal and impounding systems will be continued this year.

OUTSIDE EXPLORATION

The participation with Giant Explorations Limited (N.P.L.) in the exploration of the 583 claim Nickel Syndicate property was the major outside mining exploration program undertaken by the Company in 1971. Detailed geological, geochemical and geophysical investigations along 100 miles of surveyed grid lines in six selected areas, covering approximately 30% of the total property, was carried out to follow up the reconnaissance work in 1970.

Nickel-copper-iron mineralization, in typical ultramafic host rocks, was discovered in all of these areas. Several of the areas were further

investigated by induced polarization surveys and 5,760 feet of diamond drilling in twenty holes. Reconnaissance exploration of ground not previously examined indicated targets for further exploration.

In one of the areas, 2,500 square feet of mineralized altered pyroxenite grading 0.22% nickel, with negligible copper values, was outlined over a vertical range of 1,600 feet by surface sampling and 1,980 feet of diamond drilling. As this work has indicated the possibility of a high tonnage, low grade, open pit situation, the metallurgical recovery of the nickel values must be determined for the planning of further phases. Some preliminary metallurgical testing has been completed.

Another area of interest is a belt of mineralized ultrabasics and diorites, 2000 feet in width, extending more than three miles along the south slope of Cogburn Creek. Surface mineralization and induced polarization targets were tested by 3,455 feet of diamond drilling in nine holes. Several intersections assaying up to 0.6% combined nickel and copper over narrow widths were disclosed in the diamond drilling.

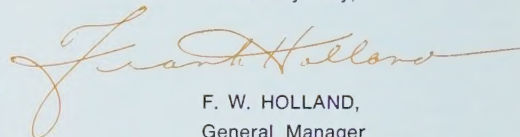
The 1971 program has demonstrated the presence of geological conditions comparable with those found in areas of the Giant Nickel ore zones.

Work on the Giant Copper property, Allison Pass, B.C., the Nickel Plate property, Hedley, B.C., and the Giant Soo property, Wasa, B.C., has been deferred since the last annual report.


CONCLUSIONS

The increase in the ore reserves for the fifth consecutive year continues to demonstrate the ore-making potential of the Giant Nickel Mine. It is particularly significant that the 1971 reserves, which are the highest on record, have been delineated entirely above the 2600 main haulage level but the extension of certain of the known ore bodies below this horizon has been strongly indicated by the limited downhole drilling program done to date.

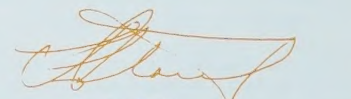
Yours very truly,



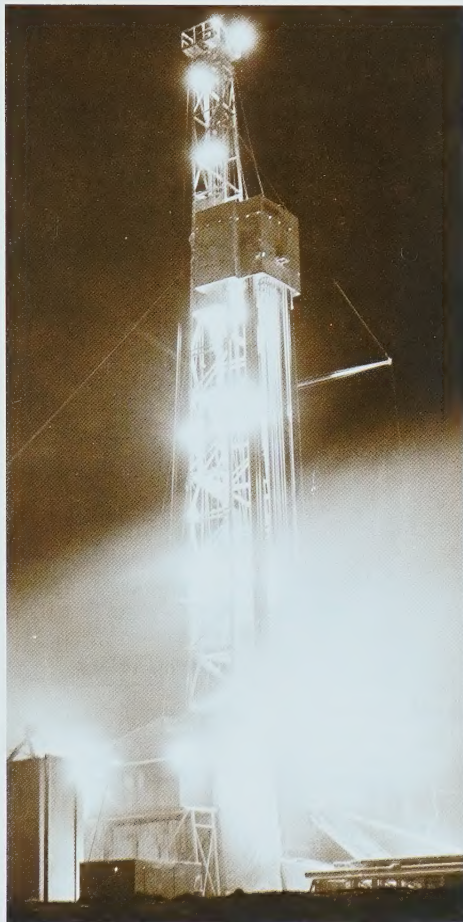
F. W. HOLLAND,
General Manager



W. E. CLARKE, Chief Geologist-
Manager Exploration



L. P. STARCK,
President and Managing Director



Panarctic Oils' Kristoffer Bay well, which was spudded November 9, 1971.

Canada's vast northland is the scene of one of the most exciting exploration programs since the discovery of Turner Valley established the potential of this country as a significant source of oil and natural gas.

Long considered too far from available markets to be worth the high cost of exploration and development, the Arctic Islands have taken on an important new dimension in the past two or three years. The reason is an acute shortage of natural gas in our major export market, the United States, and appreciation of the desirability of establishing additional oil reservoirs on the North American continent.

Spearheading this drive for new oil and gas discoveries is Panarctic Oils Ltd., a joint venture by the Canadian Government and a syndicate of resource industry companies, including Giant Mascot Mines. Giant Mascot's 4.52% interest is one of the larger industrial participations in Panarctic.

Currently Panarctic's holdings cover some 55 million acres in the Arctic Islands where three separate major gas discoveries have already been made.

Major expenditures are planned for the next five years, both in terms of Panarctic's own program and pursuant to commitments made by other companies under farmout agreements from Panarctic.

These expenditures will include \$75 million to be provided by a consortium of four gas transmission companies, which obviously feel that the problems involved in delivering any new gas discovered to the large market areas of North America can be resolved. This group has undertaken this expenditure to speed up development activities in exchange for the right to negotiate the purchase, at prices agreeable

to Panarctic, of gas in excess of Canada's domestic requirements as determined by the National Energy Board. They have no interest in Panarctic Oils itself.

As Panarctic's President, Charles Hetherington, said in the 1970 annual report: "It is fair to say that interest expressed by purchasers of natural gas, both in Canada and the United States, suggests that Arctic Islands gas may be marketable much sooner than has been generally expected. Already companies interested in the purchase of natural gas are considering proposals and programs directed to marketing Arctic Islands gas once adequate reserves are proved."

In view of the further discoveries made and the increased activity on the part of Panarctic and others during 1971, it would seem this optimism in what began as a high risk venture is well justified. The results of Panarctic's programs over the next five years should prove highly interesting both for its shareholders and for the future of Canada.

A map showing Panarctic's holdings and areas drilled in 1971 appears on inside back cover.



GIANT MASCOT MINES LIMITED CONSOLIDATED BALANCE SHEET

As at September 30, 1971

ASSETS

Current Assets:

	1971	1970
Cash	\$ 200,937	\$ 3,955,032
Receivables:		
Concentrate settlements	843,799	115,661
Other	39,119	65,606
Income taxes recoverable	564,842	—
Insurance recovery — <i>Note 3</i>	5,000,000	584,179
Inventories, at estimated net realizable values:		
Nickel cathodes	—	762,228
Concentrates	276,869	20,713
Supplies on hand, at cost	121,485	29,650
Prepaid expenses	91,757	8,235
	<hr/>	<hr/>
Total current assets	7,138,808	5,541,304

Investment in and advances to affiliated company, Giant Explorations Limited (N.P.L.):

Investment, at cost — <i>Note 4</i>	61,400	61,400
Advances	40,585	38,305
	<hr/>	<hr/>
	101,985	99,705

Mining properties and petroleum and natural gas holdings — *Note 5*

24,293,614	15,902,397
<hr/>	<hr/>
\$31,534,407	\$21,543,406
<hr/>	<hr/>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank loan (secured by the insurance recovery
and the receivables)
Accounts payable and accrued liabilities
Income and mining taxes payable
Current portion of liability relating to the purchase of
shares of Panarctic Oils Ltd. — *Note 6*

1971

1970

\$ 5,000,000

\$ —

542,799

697,164

—

612,000

602,384

762,013

Total current liabilities

6,145,183

2,071,177

Non-current portion of liability relating to the purchase of shares of Panarctic Oils Ltd. — *Note 6*

404,025

—

Deferred income and mining taxes — *Note 1*

2,144,500

1,040,000

8,693,708

3,111,177

Shareholders' equity:

Capital stock:

Authorized — 10,000,000 shares of no par value

Issued — 8,693,728 shares

16,273,848

16,273,848

Capital deficit

—

(2,040,819)

Retained earnings

6,566,851

4,199,200

22,840,699

18,432,229

\$31,534,407

\$21,543,406

APPROVED ON BEHALF OF THE BOARD:


W. C. GIBSON, *Director*


L. P. STARCK, *Director*



GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS (Note 2)

For the Year Ended September 30, 1971

	1971	1970
Value of mineral production	\$ 2,153,223	\$ 5,173,552
Cost of production:		
Mine exploration and development	218,622	611,683
Mining	427,770	803,797
Concentrating	186,509	452,394
Mine administration	66,459	115,600
Depreciation, depletion and amortization of deferred development costs — Note 1	315,891	339,827
	<u>1,215,251</u>	<u>2,323,301</u>
Operating profit	<u>937,972</u>	<u>2,850,251</u>
Other income:		
Interest income	16,785	155,709
Gain on sale of government bonds	45,000	—
	<u>61,785</u>	<u>155,709</u>
	<u>999,757</u>	<u>3,005,960</u>
Other expenses:		
Investigation of exploration prospects	11,070	16,021
General administration — Note 7	239,330	172,949
	<u>250,400</u>	<u>188,970</u>
Earnings before income and mining taxes and extraordinary items	749,357	2,816,990
Provision for income and mining taxes:		
Current (recoverable)	(599,931)	810,000
Deferred — Note 1	830,500	410,000
	<u>230,569</u>	<u>1,220,000</u>
Earnings before extraordinary items	<u>518,788</u>	<u>1,596,990</u>
Extraordinary items:		
Excess of insurance proceeds over net book value of assets destroyed (net of \$321,000 deferred income taxes on recaptured depreciation) — Note 3	3,969,350	—
Loss arising on abandonment of buildings at Giant Soo property (net of \$47,000 deferred income taxes)	(79,668)	—
	<u>3,889,682</u>	<u>—</u>
Net earnings for the year	<u>\$ 4,408,470</u>	<u>\$ 1,596,990</u>
Earnings per share before extraordinary items	\$.06	\$.18 (Note 8)
Earnings per share for the year	\$.51	\$.18 (Note 8)

GIANT MASCOT MINES LIMITED
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended September 30, 1971

	1971	1970
Retained earnings, beginning of year	\$ 4,199,200	\$ 2,602,210
Less — capital deficit	2,040,819	—
	<hr/>	<hr/>
	2,158,381	2,602,210
Net earnings for the year	4,408,470	1,596,990
	<hr/>	<hr/>
Retained earnings, end of year	<u>\$ 6,566,851</u>	<u>\$ 4,199,200</u>



GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended September 30, 1971

Source of funds:

	1971	1970
Net earnings for the year	\$ 4,408,470	\$ 1,596,990
Depreciation, depletion and amortization of deferred development costs	315,891	339,827
Deferred income and mining taxes	1,104,500	410,000
Abandonment of Giant Soo buildings	126,668	—
	<hr/>	<hr/>
Funds provided by operations	5,955,529	2,346,817
Issue of capital stock for cash	—	3,000,000
	<hr/>	<hr/>
	5,955,529	5,346,817

Application of funds:

Investment in Panarctic Oils Ltd.	1,180,801	10,927,164
Less:		
Value ascribed to 3,000,000 shares issued as part consideration therefor	—	9,000,000
Non-current portion of liability for the purchase of shares of Panarctic Oils Ltd.	404,025	—
	<hr/>	<hr/>
	776,776	1,927,164
Additions to mineral claims, buildings and equipment (net)	6,317,535	784,576
Deferred exploration, development and other expenditures:		
Giant Nickel — Note 1	1,167,177	323,347
Giant Copper	44,166	179,625
Giant Soo	9,784	40,920
Nickel Plate	23,580	94,742
Nickel Syndicate	90,733	38,949
Investment in shares of Giant Explorations Ltd. (N.P.L.)	—	50,625
Advances to Giant Explorations Ltd. (N.P.L.)	2,280	38,305
	<hr/>	<hr/>
	8,432,031	3,478,253
	<hr/>	<hr/>
Increase (decrease) in working capital	(2,476,502)	1,868,564
Working capital at beginning of year	3,470,127	1,601,563
	<hr/>	<hr/>
Working capital at end of year	\$ 993,625	\$ 3,470,127

GIANT MASCOT MINES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1971

1. Principles of consolidation and accounting policies:

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries, namely: Eagle Ridge Petroleum Ltd., G. M. Explorations Limited (N.P.L.), Mascot Copper Mines Limited (N.P.L.) and Giant Soo Mines Limited (N.P.L.); the latter, having disposed of its assets to its parent company is presently being wound up voluntarily.

The Company provides depreciation on buildings and machinery at the Giant Nickel Mine on a straight-line basis at the rate of 5% annually for buildings and surface machinery and 10% annually for underground machinery and facilities. Mobile equipment is depreciated on the declining balance method at a rate of 30%.

The cost of mineral claims at the Giant Nickel Mine is being amortized against earnings over a 25-year period.

Mine development costs, which contribute significantly to the life of the Giant Nickel Mine, are deferred as incurred and amortized over a ten-year period. Extensive underground work was carried out while operations were suspended with the result that \$1,167,177 in development costs has been deferred during the current fiscal year.

Provision is made for deferred income and mining taxes arising from depreciation and development costs claimed for income and mining tax purposes in excess of the amounts charged against earnings in the accounts.

2. Mineral production:

Operations at the Giant Nickel Mine near Hope, B.C., were suspended due to the fire on August 2, 1970 which destroyed the concentrator and most of the surface facilities. Production resumed on May 14, 1971 after construction and, accordingly, the consolidated statement of earnings reflects the value of mineral production and related costs of production for the 4½ months to the end of the fiscal period as compared with that of the 10-month period for 1970.

3. Insurance recovery:

The Company's insurance policies in effect at the time of the fire, having a total coverage estimated at some \$5,000,000 in the aggregate, combine physical loss on a replacement cost basis, business interruption loss and sundry losses. The final insurance claims have been prepared and filed with the insurance adjusters, but in view of the fact that construction was only completed in May, it was not possible to complete the adjustment and settlement of the Company's claims before August 2, 1971, and the Company, as a matter of formality and in compliance with the conditions normally contained in fire insurance policies that any action against an insurer be commenced not later than one year after the loss, has commenced proceedings against its insurers. The commencement of proceedings under such circumstances is quite normal and in no way impedes the process of adjusting and settling insurance claims.

In addition, however, a further question has arisen which will have to be resolved in the final settlement of the claims. Although the companies with whom Giant Mascot had placed its own principal insurance coverage, in a combined amount of \$5,000,000 in property damage on a replacement cost basis, business interruption loss and other cover, have in no way denied liability, they have taken the position that an insurance policy effected in 1968 covering "Cemp Investments Ltd., and/or subsidiary, affiliated and associated companies as may now or hereafter be constituted" should contribute to the payment of Company's claim for property damage and perhaps other minor claims. It cannot be determined at this time whether or not the insurers under the policy insuring Cemp Investments Ltd. (Cemp) et al are liable to contribute.

As a result, the Company and Cemp Investments Ltd., in view of the position taken by the Company's insurers, have also commenced proceedings against the insurers under the Cemp policy to protect the Company's right to recover from them if they were liable to contribute.

It is the opinion of the Company's management that the Company will not ultimately be prejudiced in the amount of its recovery by the complication which has arisen in respect of the possible application of the Cemp policy.

Based on the Company's insurance coverage an estimate of \$5,000,000 has been recorded in the accounts for insurance recoveries, of which an interim payment of \$1,666,666 has

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

been received subsequent to September 30, 1971. An amount of \$3,969,350 being the excess of estimated insurance proceeds over the net book value of assets destroyed has been recorded in the accounts. Pending settlement of the claims, however, the extent of the total insurance recovery and the allocation to physical damage and business interruption loss and any income tax liability which might be attributed to such settlement cannot be finally determined.

4. Investment in Giant Explorations Limited (N.P.L.):

The 725,255 shares held represent approximately 26% of that company's issued shares.

5. Mining properties and petroleum and natural gas holdings (i):

MINING PROPERTIES:

GIANT NICKEL MINE—

	1971	1970
Mineral claims, at cost, less accumulated depletion of \$22,782; 1970 — \$11,391	\$ 268,816	\$ 273,469
Buildings and equipment, at cost less accumulated depreciation of \$1,232,876; 1970 — \$844,376	7,307,885	1,255,616
Deferred mine development costs less accumulated amortization \$119,298; 1970 — \$40,298	1,778,455	552,278
	<u>9,355,156</u>	<u>2,081,363</u>

GIANT COPPER PROPERTY:

Mining claims, at cost*	1,007,638	1,005,617
Buildings and equipment, at cost*	370,858	370,858
*including \$1,084,997 ascribed to 1,084,997 shares issued therefor		
Deferred exploration and development expenditures	1,016,633	972,467
	<u>2,395,129</u>	<u>2,348,942</u>

GIANT SOO PROPERTY:

Mineral claims, at cost (subject to a 2½ % royalty on net returns)	21,202	20,000
Buildings and equipment, at cost less accumulated depreciation of \$64,984	—	234,863
Deferred exploration and development expenditures	50,704	40,920
	<u>71,906</u>	<u>295,783</u>

INTEREST IN NICKEL PLATE PROPERTY

AND EXTENSIONS

Option rights, at cost	3,193	3,193
Deferred exploration and development expenditures	220,211	196,631
	<u>223,404</u>	<u>199,824</u>

NICKEL SYNDICATE (50% interest):

Deferred exploration and development expenditures	140,054	49,321
	<u>12,185,649</u>	<u>4,975,233</u>

PETROLEUM AND NATURAL GAS HOLDINGS (Note 6):

4.52% interest in the shares of Panarctic Oils Ltd., at cost (including \$9,000,000 ascribed at 3,000,000 shares issued as part consideration therefor)

	12,107,965	10,927,164
	<u>\$24,293,614</u>	<u>\$15,902,397</u>

(i) The amounts shown for mining properties, petroleum and natural gas holdings are not intended to reflect present or future values.

6. Liability relating to the purchase of shares of Panarctic Oils Ltd.:

Under an agreement dated May 4, 1971, the company acquired additional preferred shares of Panarctic Oils Ltd. at a cost of \$1,174,540.

At September 30, 1971, \$1,006,409 of the related obligation remained unpaid and of this amount \$602,384 is expected to be payable within the fiscal year ended September 30, 1972.

7. Remuneration of Directors and Senior Officers:

The total direct aggregate remuneration paid by the company to its directors and senior officers (including not only officers as such, but also, by definition, certain management personnel) was \$142,480 (1970 — \$113,466).

8. Earnings per share:

Earnings per share for the year ended September 30, 1970, were \$.18 based on 8,693,728 shares outstanding at the year end and \$.28 based on a weighted average of 5,726,605 shares outstanding during the year.

9. Restatement of comparative figures:

Figures for 1970 have been restated where necessary to conform with the presentation adopted for 1971.

AUDITORS REPORT

January 12, 1972

To the Shareholders of
Giant Mascot Mines Limited:

We have examined the consolidated balance sheet of Giant Mascot Mines Limited and its subsidiaries as at September 30, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to such adjustments as may result from the final determination of the insurance recovery referred to in Note 3, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

"PRICE WATERHOUSE & CO."
Chartered Accountants

GIANT MASCOT MINES LIMITED

FIRST QUARTER CONSOLIDATED OPERATING RESULTS — 1972 FISCAL PERIOD

To the Shareholders:

The Board of Directors presents the following unaudited statement of earnings and source and application of funds for the three-month period ended December 31, 1971. The comparative figures for the quarterly

period ended December 31, 1970 have not been provided as the mine was not in production during that period and the figures are, therefore, not comparative with the current quarter.

CONSOLIDATED STATEMENT OF EARNINGS

Dry tons of ore milled		<u>103,066</u>
Value of mineral production		<u>\$1,402,745</u>
Cost of production:		
Mine exploration and development	\$147,761	
Mining	251,760	
Concentrating	136,860	
Mine administration	46,126	
Depreciation, depletion and amortization of deferred development costs	204,000	<u>786,507</u>
Operating profit		<u>616,238</u>
Other expenses:		
Investigation of exploration prospects	1,607	
General administration	59,322	
Interest expense	73,866	<u>134,795</u>
Earnings before income and mining taxes		<u>481,443</u>
Provision for deferred income and mining taxes		<u>200,000</u>
Net earnings for the period		<u><u>\$ 281,443</u></u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of Funds:		
Net earnings for the period		\$ 281,443
Depreciation, depletion and amortization of deferred development costs		204,000
Deferred income and mining taxes		<u>200,000</u>
Funds provided by operations		<u>685,443</u>
Application of Funds:		
Exploration and development expenditures:		
Giant Nickel	\$ 97,189	
Giant Copper	4,650	
Nickel Syndicate	31,898	
Other properties	4,204	
		<u>137,941</u>
Additions to mineral claims, buildings and equipment (net)	136,401	
Advances to Giant Explorations Ltd. (N.P.L.)	13,350	<u>287,692</u>
		<u><u>397,751</u></u>
Working capital as at September 30, 1971		<u>993,625</u>
Working capital as at December 31, 1971		<u><u>\$1,391,376</u></u>

The above figures are subject to audit and year end adjustments.

On Behalf of the Board
"L. P. STARCK"
President and Managing Director

PANARCTIC OILS LTD.



PANARCTIC HOLDINGS



1971 AREAS OF EXPLORATION ACTIVITY
BY PANARCTIC AND OTHERS THROUGH
FARM OUT AGREEMENTS



Area covered by accompanying map.

